LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY
HOUMA, LOUISIANA

Financial Statements and Supplementary Information

Year Ended December 31, 2011

Lanaux & Felger
A Corporation of
Certified Public Accountants
Houma, Louisiana

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Financial Statements and Independent Auditor's Report

Year Ended December 31, 2011

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LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY
HOUMA, LOUISIANA

Directors, Officers, and Management

December 31, 2011

DIRECTORS

NAME	ADDRESS	PRINCIPAL BUSINESS
Eroy Acosta	Stephensville, Louisiana	Self-employed
Tracy Benoit Duval	Amelia, Louisiana	Self-employed
Roger Dale Dehart	Theriot, Louisiana	Self-employed
Larry J. Daigle	Gray, Louisiana	Produce Buyer
Alexander Doyle	Houma, Louisiana	Legal Attorney
J. D. Boudreaux	Donner, Louisiana	Retired
David Luke	Houma, Louisiana	Seafood Processor
Brian Rivet	Gheens, Louisiana	Self-employed
Terry Trahan	Bayou Black, Louisiana	Retired

ADVISOR TO THE BOARD

Lloyd Gibson

OFFICERS AND MANAGEMENT

Alexander Doyle	President
David Luke	Vice-President
Brian Rivet	Secretary
Terry Trahan	Treasurer
Joe Ticheli	General Manager

5779 Hwy. 311
P. O. Box 3695
Houma, Louisiana 70361-3695
Telephone (985) 851-0883
Fax (985) 851-3014

Lanaux & Felger

— Certified Public Accountants —
A Professional Corporation

Thomas J. Lanaux, CPA
Mark S. Felger, CPA

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
South Louisiana Electric Cooperative Association and Subsidiary
Houma, Louisiana

We have audited the accompanying consolidated balance sheets of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association (Cooperative) and Subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of revenue and expenses, equities and margins and comprehensive income, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Total Environmental Solutions, Inc., a wholly owned subsidiary, which statements reflect total assets of $21,813,094 and $23,125,810 as of December 31, 2011 and 2010, respectively, and total revenues of $11,992,817 and $13,159,333, respectively, for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Total Environmental Solutions, Inc. as of December 31, 2011 and 2010, and for the years then ended, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association and Subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

American Institute Of Certified Public Accountants --- Members --- Society Of Louisiana Certified Public Accountants

As discussed in Note 22 to the financial statements, management has elected to change its policy for recognizing revenues on power cost adjustments billed to customers in 2011.

The other auditor's report on the 2011 and 2010 financial statements of Total Environmental Solutions, Inc. included an explanatory paragraph describing conditions that raised substantial doubt about its ability to continue as a going concern, as discussed in Note 3 to the financial statements.

In accordance with Government Auditing Standards, we have also issued a report dated September 17, 2012, on our consideration of the Cooperative's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Houma, Louisiana
September 17, 2012

Lanaux & Felger

LOUISIANA 8 TERREBONNE

SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Balance Sheets

December 31, 2011 and 2010

ASSETS

	2011	2010
Utility plant:		
Electric plant in service	$ 108,455,280	$ 104,480,636
Construction work in progress	3,555,515	4,211,069
Water and waste water	33,303,528	33,951,314
Property held for sale	1,336,944	-
	146,651,267	142,643,019
Less accumulated depreciation	(49,524,945)	(47,231,813)
Net utility plant	97,126,322	95,411,206
Investments in associated organizations	2,195,981	2,118,631
Current assets:		
Cash and cash equivalents	1,177,791	886,015
Restricted cash	2,500	2,500
Total cash and cash equivalents	1,180,291	888,515
Accounts receivable:		
Consumers, less allowance for doubtful accounts of $1,696,314 in 2011; $1,819,803 in 2010	3,595,937	3,119,953
Accrued unbilled revenue	1,537,655	1,942,244
Other accounts receivable	1,052,544	3,220,767
Materials and supplies inventories	1,385,514	1,724,264
Prepayments	876,078	763,459
Total current assets	9,628,019	11,659,202
Other assets:		
Deferred charges, net of amortization	346,239	486,421
Other assets	350,307	315,630
	696,546	802,051
Total assets	$ 109,646,868	$ 109,991,090

See notes to financial statements.

LOUISIANA 8 TERREBONNE

SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Balance Sheets, Continued

December 31, 2011 and 2010

LIABILITIES AND OTHER CREDITS

	2011	2010
Equities and margins:		
Memberships	$ 80,070	$ 79,245
Patronage capital	45,019,977	46,746,257
Other equities (deficits)	(1,865,529)	(1,066,145)
Accumulated other comprehensive income (loss)	(4,909,700)	(5,267,400)
Total equities and margins	38,324,818	40,491,957
Long-term obligations, net of current maturities:		
Notes and capital leases payable, less current maturities	28,459,555	23,727,538
Deferred interest payable	1,204,847	1,520,801
Long-term obligations, net	29,664,402	25,248,339
Current liabilities:		
Current maturities of long-term obligations	18,071,380	18,579,521
Lines of credit	1,049,913	3,099,913
Note payable - insurance	446,337	414,411
Accounts payable:		
Purchased power	2,459,120	2,426,688
Other	1,483,755	1,633,985
Consumer deposits	1,945,539	1,875,531
Accrued expenses and other liabilities	1,242,204	1,665,145
Accumulated employee benefit liability	430,400	375,000
Total current liabilities	27,128,648	30,070,194
Other liabilities:		
Deferred income taxes	1,088,000	1,228,000
Accumulated employee benefit liability	13,441,000	12,952,600
Total other liabilities	14,529,000	14,180,600
Total liabilities	71,322,050	69,499,133
Total liabilities and other credits	$ 109,646,868	$ 109,991,090

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY
Consolidated Statements of Revenue and Expenses
Years Ended December 31, 2011 and 2010

	2011	2010
Operating revenue	$ 57,205,776	$ 54,641,605
Operating expenses:		
Cost of power	31,042,038	28,854,935
Distribution expense	3,144,062	3,009,365
Consumer account expense	1,655,803	1,610,049
Customer sales and service	367,284	371,651
Depreciation and amortization	3,081,423	3,010,597
Water and waste water expenses	10,244,542	10,188,672
Other operating expenses	180,135	9,501
Taxes	118,264	132,626
Maintenance:		
Distribution and transmission system	2,204,244	2,328,527
General plant	370,758	399,640
Administrative and general:		
General office salaries and benefits	2,213,016	2,074,766
Property and liability insurance	101,498	109,326
Special services	311,550	292,590
Office supplies and expense	347,519	310,629
National, state and local meetings - directors and employees	190,446	181,731
Dues and subscriptions	229,701	245,357
Water and waste water expenses	1,853,325	1,859,429
Miscellaneous	159,550	113,910
	57,815,158	55,103,301
Operating margins	(609,382)	(461,696)
Interest expense	2,568,602	2,569,364
Net operating margins	(3,177,984)	(3,031,060)
Non-operating margins:		
Interest income	121,172	181,806
Loss on retirement of property	(76,584)	(55,457)
Other non-operating income (expenses), net	56,864	373,611
	101,452	499,960
	(3,076,532)	(2,531,100)
Patronage income:		
Cooperative capital credits - CFC	133,522	141,177
Patronage credits - Co-Bank	142,832	146,766
	276,354	287,943
Net margins before income tax	(2,800,178)	(2,243,157)
Income taxes:		
Deferred tax expense (benefit)	(140,000)	(250,000)
Valuation allowance	-	81,000
Total income tax expense (benefit)	(140,000)	(169,000)
Net margins - continuing operations	(2,660,178)	(2,074,157)
Margins from discontinued operations	134,514	137,727
Net margins	$ (2,525,664)	$ (1,936,430)

See notes to financial statements.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Statements of Equities and Margins
and Comprehensive Income

Years Ended December 31, 2011 and 2010

	Memberships	Patronage Capital	Other Equities (Deficits)	Accumulated Other Comprehensive Income (Loss)	Total Equities and Margins	Comprehensive Income (Loss)
Balances at December 31, 2009	$ 78,795	$ 48,441,105	$ (824,563)	$ (4,563,400)	$ 43,131,937	
Change in memberships	450	-	-	-	450	
Net margins for the year	-	(1,694,848)	(241,582)	-	(1,936,430)	$ (1,936,430)
Other comprehensive income:						
Defined benefit postretirement benefit plan:						
Net loss during the period	-	-	-	(985,700)	(985,700)	(985,700)
Amortization of actuarial gains (losses) included in postretirement benefit expense	-	-	-	281,700	281,700	281,700
Total comprehensive income (loss)						$ (2,640,430)
Balances at December 31, 2010	79,245	46,746,257	(1,066,145)	(5,267,400)	40,491,957	
Change in memberships	825	-	-	-	825	
Net margins for the year	-	(1,726,280)	(799,384)	-	(2,525,664)	$ (2,525,664)
Other comprehensive income:						
Defined benefit postretirement benefit plan:						
Net loss during the period	-	-	-	-	-	-
Amortization of actuarial gains (losses) included in postretirement benefit expense	-	-	-	357,700	357,700	357,700
Total comprehensive income (loss)						$ (2,167,964)
Balances at December 31, 2011	$ 80,070	$ 45,019,977	$ (1,865,529)	$ (4,909,700)	$ 38,324,818	

See notes to financial statements.

LOUISIANA 8 TERREBONNE

SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Consolidated Statements of Cash Flows

Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities:		
Net margins	$ (2,525,664)	$ (1,936,430)
Adjustments to reconcile net margins to net cash provided by operating activities:		
Provision for depreciation, and undepreciated costs on utility plant retirements	4,394,147	4,329,094
Provision for uncollectible accounts	24,961	158,556
Provision for amortization	143,039	430,625
(Gain) loss on disposition of assets	76,584	(284,198)
Provision for postretirement benefits	901,500	792,300
Deferred income tax benefit	(140,000)	(169,000)
Changes in operating assets and liabilities:		
Current assets	291,352	(980,605)
Current liabilities	(856,693)	854,831
Customer deposits	70,008	25,172
Net cash provided by (used in) operating activities	2,379,234	3,220,345
Cash flows from investing activities:		
Construction expenditures for utility plant	(6,188,704)	(7,156,214)
Proceeds from the sale of property	-	383,060
Proceeds from contributions in aid of construction	1,799,219	1,885,015
Patronage distribution, net	95,400	97,774
Net cash provided by (used in) investing activities	(4,294,085)	(4,790,365)
Cash flows for financing activities:		
Increases in membership and other equities	825	450
Increase (decrease) in short-term borrowings, net	(2,050,000)	(1,332,944)
Borrowings on notes payable	7,003,926	5,000,000
Retirement of long-term debt	(2,748,124)	(2,680,153)
Net cash provided by (used in) financing activities	2,206,627	987,353
Net increase (decrease) in cash and cash equivalents	291,776	(582,667)
Cash and cash equivalents at beginning of year	888,515	1,471,182
Cash and cash equivalents at end of year	$ 1,180,291	$ 888,515
Supplemental disclosures of cash flow information:		
Interest paid	$ 2,873,704	$ 2,601,078
Non-cash investing and financing activities:		
Retirement of plant assets, adjusted for removal costs and materials salvaged	$ 2,017,933	$ 1,791,272
Actuarial gains (losses) in postretirement benefit plan reported as component of comprehensive income	$ (357,700)	$ (704,000)

See notes to financial statements.

1) Summary of Significant Accounting Policies

The following accounting policies and financial information of the Cooperative are set forth to facilitate the understanding of data presented in the financial statements.

a) Organization and jurisdiction. South Louisiana Electric Cooperative Association ("Cooperative") was chartered in 1939 to provide electric service to rural member customers. At December 31, 2011, the Cooperative had approximately 1,448 miles of line providing service to approximately 27,142 members in a five parish area of South Louisiana. The Cooperative is subject to certain rules and regulations promulgated for rural electric borrowers by the RUS and is also subject to the jurisdiction of the Louisiana Public Service Commission (LPSC). The Cooperative's accounting policies conform to generally accepted accounting principles as applied in the case of Rural Electric Cooperatives.

Total Environmental Solutions, Inc., (TESI) a wholly owned subsidiary of the Cooperative was chartered in 2000 to purchase the assets of a water and waste water utility from the Bankruptcy Court of the Middle District of Louisiana. TESI provides water and waste water services to customers in Louisiana, Mississippi, North Carolina, South Carolina, and Pennsylvania.

b) Consolidation. The consolidated financial statements include the accounts of the cooperative and its wholly owned Subsidiary, Total Environmental Solutions, Inc. Intercompany transactions and balances have been eliminated in consolidation.

c) Utility plant and other property. The Cooperative's utility plant-in-service and other property are stated at cost. Depreciation is computed using the straight-line method over the expected useful lines of the related assets.

Retirement of plant assets is recorded at the average cost of the units retired as determined from the continuing property records maintained by the Cooperative. A corresponding amount, adjusted for costs of removal less materials salvaged, is charged to accumulated depreciation. Gains and losses on retirements are reflected in income through future depreciation charges.

TESI's property is stated at cost, less accumulated depreciation. Additionally, recognition has been provided for acquisition adjustments related to original costs of plant-in-service for utility plants in Pennsylvania as provided through the ratemaking process by the Pennsylvania Public Utility Commission. All property recorded is included in rates. Depreciation expense is computed principally by the straight-line method over the estimated useful lives of depreciable assets for financial statement purposes, whereas accelerated methods are used for income tax purposes. Gains and losses on asset sales or dispositions are reflected in the income statement.

d) Investments in associated organizations. The Cooperative has investments in CFC and other cooperatives in the form of patronage capital certificates and capital term certificates.

Patronage capital certificates are recorded as assets and income in the year issued. There are no dividends or interest that accrue on these certificates. Capital term certificates are interest bearing. Interest earned on these certificates is recorded in interest income.

e) Materials and supplies inventories. Materials and supplies inventories are stated at cost using the weighted average cost method of inventory valuation.

f) Revenue and cost recognition. The Cooperative recognizes revenues based on services rendered to customers during the year. This includes services on cycle-billings, which are not billed at year's end.

The Cooperative's tariffs for electric service include power cost adjustment clauses under which billings to customers are adjusted to reflect changes in the cost of purchased power. In order to match power cost and related revenues, underbilled power cost to be billed to customers in subsequent periods is recognized as a current asset and as an increase in operating revenues. Overbilled power cost to be credited to consumers in subsequent periods is recognized as a current liability and as a decrease in operating revenues. The Cooperative has over collected power cost of $249,069 and $697,628 at December 31, 2011 and 2010, respectively.

g) Income taxes. The Cooperative is a nonprofit organization. An exemption from federal income taxes has been obtained from the Internal Revenue Service. Over 85% of the income is received from members of the Cooperative; therefore, no federal taxes are due. The Cooperative has not identified any uncertain tax positions that would jeopardize its status as tax-exempt.

The Cooperative's wholly owned Subsidiary, TESI, is taxed as a corporation for income tax purposes. TESI accounts for income taxes using the liability method. Temporary differences occur between the financial reporting and tax bases of assets and liabilities. Deferred tax assets and liabilities are recorded for these differences based on enacted tax rates and laws that will be in effect when the differences are expected to reverse.

h) Cash equivalents. For purposes of the statement of cash flows, the Cooperative considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

i) Advertising costs. Advertising costs are charged to operations when incurred, except for direct-response advertising. The costs of direct-response advertising are capitalized and amortized over the period which future benefits are expected to be received. There were no direct-response advertising costs incurred during the year. Advertising costs incurred and charged to operations were $25,237 and $44,612 for the years ended December 31, 2011 and 2010, respectively.

j) Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2) Cash and Invested Cash

Deposits with banks are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2011, deposits with banks exceeded FDIC protection by approximately $1,022,000.

3) Going Concern - Subsidiary

The Cooperative's wholly owned subsidiary, TESI, incurred a net loss before income taxes of approximately $799,000 for 2011 and prior to 2010, incurred accumulated deficit of approximately $4,851,000. TESI has incurred substantial debt to fund operations and the acquisition of property. Furthermore, TESI is subject to regulatory mandates for environmental compliance as well as recurring system improvements. Historically, TESI has been unable to fund these expenditures from operations, thereby requiring additional debt and has not been released from regulatory oversight.

TESI is required to comply with debt covenants as defined in loan agreements; however, certain covenants have been violated during 2011 and prior years. TESI has been funded by new debt with limited guarantee by SLECA.

In 2006, TESI incurred a net loss before income taxes in excess of $1 million which created negative cash flow that required use of the line of credit available through CoBank and SLECA. SLECA acquired debt with CoBank and was lending such amounts to TESI as needed. TESI reimburses SLECA for the interest charged by CoBank. During 2011 and 2010, TESI borrowed an additional $200,000 from SLECA. TESI has attempted a range of profit enhancement plans; however, these plans have not been adequately executed to achieve sustainable profitability and operating cash flows. During 2012, TESI is continuing to experience financial stress with continued operating losses and inadequate cash flows. Furthermore, TESI has initiated plans to dispose of property and discontinue related operations in Pennsylvania, Mississippi, North Carolina and South Carolina. The proceeds from these sales will be used to retire debt, if and when sold.

Additionally, the continued operating losses and negative cash flows indicate that the fair market value of the property owned by TESI may be impaired. Management received a valuation of assets held in Louisiana, Mississippi, South Carolina and Pennsylvania during 2012 to confirm certain property, net accumulated depreciation (cost basis) reported in the financial statements. See Note 21.

The financial statements do not include any adjustments relating to the recoverability of recorded asset or liability amounts that might be necessary should TESI be unable to continue as a going concern.

4) Discontinued Operations

In November 2011, TESI agreed to sell certain water and sewer utility assets located in Pennsylvania for $1,500,000. The sale was conditioned on Public Utility Commission approval which occurred in February 2012. As a result, the sale will be recorded in 2012; however, at December 31, 2011, the net book value of the property has been classified on the consolidated balance sheet as held or sale and the 2011 and 2010 operating results have been reported as discontinued. The proceeds of the sale will be used to reduce principal and interest on debt of $1,305,748, a prepayment penalty of $19,545, and TESI will retain $174,707 for working capital.

5) Utility Plant

The following are the major classes of the utility plant as of December 31,:

	2011	2010
Distribution plant	$ 91,926,495	$ 87,844,523
Transmission plant	8,019,415	8,191,836
General plant	8,509,370	8,444,277
Water and waste water plant	34,640,472	33,951,314
	143,095,752	138,431,950
Construction work in progress	3,555,515	4,211,069
	$ 146,651,267	$ 142,643,019

Depreciation is computed using the straight-line method at the following rates:

	Percent
Distribution plant	3.216
Transmission plant	2.748
Water and waste water plant	2.5 – 5.0
General plant:	
Office furniture and equipment	6.0 - 10.0
Transportation	10.0 - 33.3
Structure and improvements	2.400

Depreciation expense was $4,394,147 and $4,329,094 for 2011 and 2010, respectively. Essentially all property has been pledged to collateralized debt. See note 11.

In accordance with regulatory accounting, certain assets reflected in water and wastewater plants relate to the recognition of adjustments for original costs of plant-in-service for utility plants in Pennsylvania as provided through the ratemaking process by the Pennsylvania Public Utility Commission. Accordingly, net plant in service assets for TESI of approximately $5,150,000 has been recognized.

6) Investments in Associated Organizations

Investments in associated organizations include the following at December 31,:

	2011	2010
Patronage capital credits from CFC	$ 313,462	$ 285,521
Investment in capital term certificates of CFC	1,494,579	1,494,579
Other investments in cooperatives	387,940	338,531
	$ 2,195,981	$ 2,118,631

7) Accounts Receivable Consumers

Accounts receivable consumers at December 31, 2011 and 2010, consisted of the following:

2011	Accounts Receivable	Allowance	Accounts Receivable Net
Electric consumers - SLECA	$ 2,790,707	$ 141,401	$ 2,649,306
Water and wastewater consumers - TESI	2,501,544	1,554,913	946,631
Total	$ 5,292,251	$ 1,696,314	$ 3,595,937
2010			
Electric consumers - SLECA	$ 2,669,543	$ 181,346	$ 2,488,197
Water and wastewater consumers - TESI	2,270,213	1,638,457	631,756
Total	$ 4,939,756	$ 1,819,803	$ 3,119,953

The Company does not require collateral on its receivables; however, a deposit is collected from customers which may be used to satisfy outstanding receivables.

8) Details of Patronage Capital

	2011	2010
Assignable	$ (1,726,280)	$ (1,694,848)
Assigned	46,746,257	48,441,105
	$ 45,019,977	$ 46,746,257

Under the provisions of the Mortgage Agreement, until the equities and margins equal or exceed 40 percent of the total assets of the Cooperative, the return to patrons of capital contributed by them is limited generally to 25 percent of the patronage capital or margins received by the Cooperative in the prior calendar year. The equities and margins of the Cooperative represent 35 and 37 percent of the total assets at December 31, 2011 and 2010, respectively.

9) Details of Other Equities (Deficits)

	2011	2010
Retained capital credit gain	$ 183,282	$ 183,282
Capital gains and losses	5,986	5,986
Donated capital	6,761	6,761
Acquisition adjustment and equity in undistributed earnings (loss) of subsidiary	(2,061,588)	(1,262,174)
	$ (1,865,559)	$ (1,066,145)

10) Insurance Note Payable and Lines of Credit

TESI financed insurance premiums and rate case costs with short-term financing arrangements:

	2011	2010
TESI notes payable:		
Financed insurance, due in 10 monthly installments of $51,131, including interest at 2%.	$ 359,224	$ 354,321
Financed insurance (2 non-interest bearing policies), due in 10 monthly installments from $2,530 to $6,580.	87,113	60,090
Total	$ 446,337	$ 414,411

At December 31, the Cooperative had lines of credit as follows:

	2011	2010
Cooperative debt:		
$5,000,000 line of credit with CoBank, variable interest only payments (3.30% and 3.02% at December 31, 2011 and 2010, respectively), due September 30, 2012. The line of credit is unsecured.	$ 1,049,913	$ 3,099,913

11) Long-Term Obligations

Long-term debt as of December 31 follows:

	2011	2010
Cooperative debt:		
Rural Utilities Services, 3.03% to 5% mortgage notes, due in quarterly principal and interest installments of approximately $576,000 through 2042.	$ 23,358,212	$ 17,803,727
National Rural Utilities Cooperative Finance Corporation, 2.85% to 7.3% mortgage notes, due in quarterly principal and interest installments of approximately $274,000 through 2036.	7,177,409	7,836,084
Total Cooperative debt	30,535,621	25,639,811
TESI debt:		
CoBank 7.4% fixed interest rate due in monthly interest and principal payments of $113,125 through June 20, 2028, secured by property and limited guarantees by SLECA.	12,820,926	13,184,524
CoBank variable interest rate (2.97% at December 31, 2011) due in monthly installments of principal and interest payments, secured by property and limited guarantee by SLECA.	1,211,859	1,263,801
Pennsylvania Infrastructure Investment Authority construction loan, secured by property and limited guarantee by SLECA (See detailed explanation below).	1,827,001	1,978,199
Capital leases payable (14) in 36 to 60 monthly payments from $68 - $1,231 each, maturing from January 2012 to March 2014, bearing interest from 0% to 7.4%, collateralized by equipment.	135,528	240,724
Total TESI long-term debt	15,995,314	16,667,248
Total long-term debt	46,530,935	42,307,059
Less: Current maturities of Cooperative debt	(2,076,066)	(1,912,273)
Less: TESI debt, current due to default	(15,995,314)	(16,667,248)
Total current maturities of long-term debt	(18,071,380)	(18,579,521)
Total long-term debt, net of current maturities	$ 28,459,555	$ 23,727,538

11) Long-Term Obligations (continued)

Substantially all of the Cooperative's utility plant is pledged as collateral under the various mortgage notes.

Interest incurred and charged to expense on notes payable was $2,568,602 and $2,569,364 for the years ended December 31, 2011 and 2010, respectively.

Under TESI's loan agreements, TESI is required to maintain certain operating financial ratios as well as other restrictive covenants and customary conditions to prevent default. During 2011 and 2010, certain covenant violations occurred related to failure to maintain satisfactory financial ratios and various required reporting to the lenders. A waiver was not sought from the lender; therefore, all debt has been classified as current. Scheduled maturities of long-term debt follow:

	SLECA	TESI	TOTAL
2012	$ 2,076,066	$ 709,575	$ 2,785,641
2013	1,917,968	639,539	2,557,507
2014	1,973,659	665,024	2,638,683
2015	1,918,183	703,780	2,621,963
2016 and thereafter	22,649,745	13,277,396	35,927,141
	$ 30,535,621	$ 15,995,314	$ 46,530,935

TESI's loan with CoBank of $14,000,000 is scheduled to mature through 2028 and was restricted to re-finance certain debt owed. Additionally, TESI has a multiple advance loan ($2,000,000) for the acquisition and upgrade of TESI's water and sewer facilities and working capital needs. As of December 31, 2011, TESI had $788,141 available on the multiple advance loan. SLECA has guaranteed $7,000,000 of TESI's loan with CoBank. SLECA's future guarantee of debt can be reduced to $4,000,000 if certain financial ratios are achieved; however, such ratios were not achieved at December 31, 2010. Additionally, CoBank issued TESI irrevocable letters of credit in the amount of $3,952,841, for the purpose of supporting TESI's obligation for certain consent decrees As of December 31, 2011, the letters of credit were unused.

TESI has a multiple advance construction loan of $3,108,000 with the Pennsylvania Infrastructure Investment Authority (PennVest) dated September 2002, bearing interest at a varying rate (1.156% at December 31, 2011) and scheduled to mature in March 2023. The loan is payable in equal monthly installments of principal and interest of $14,439. SLECA has guaranteed this loan.

The debt, as disclosed above, is secured by property described in Note 5.

12) Provision for Income Taxes

The subsidiary's provision for income taxes consisted of the following:

	2011	2010
Current tax provision:		
Deferred income tax benefit	$ 260,000	$ 204,000
Valuation allowance	(120,000)	(81,000)
Income tax expense (benefit)	$ 140,000	$ 123,000

The subsidiary's tax effects of temporary differences that give rise to significant portions of the deferred tax asset are as follows:

	2011	2010
Current deferred tax assets:		
Allowance for doubtful accounts receivable and impaired inventory	$ (515,000)	$ (515,000)
Valuation allowance - current	515,000	515,000
	$ -	$ -
Noncurrent net deferred tax liability:		
Depreciation - difference in method	$ (1,818,000)	$ (1,905,000)
Net operating loss carryforward	1,475,000	1,277,000
Valuation allowance - noncurrent	(745,000)	(600,000)
Net deferred tax liability	$ (1,088,000)	$ (1,228,000)

At December 31, 2011, TESI has net operating loss carryforwards of approximately $4,000,000 that will expire from 2021 through 2031. The value of the income tax savings resulting from the use of the net operating loss carryforwards to reduce future taxable income is approximately $1,475,000. This amount has been reduced by a valuation allowance due to the uncertainty of TESI to achieve adequate net income to realize the benefit of the net operating loss carryforwards.

TESI's effective tax rate differs from the federal statutory rate, primarily due to lower rates on the first $100,000 of taxable income, certain nondeductible expenses, state income taxes/(benefits) and changes in the valuation allowance of doubtful accounts.

13) Deferred Charges

The subsidiary records assets that result from the regulated ratemaking process that would not be recorded under generally accepted accounting principles for non-regulated entities. TESI has recorded deferred charges for amortizable professional fees incurred relating to rate applications and proceedings to establish increased rates for water and wastewater services.

During 2006 TESI incurred fees resulting from refinancing long-term debt, and such fees have been deferred and are being amortized over 264 months, which is the term of the new debt.

Deferred charges and accumulated amortization at December 31, 2011 and 2010 consisted of:

	2011	2010
Rate case costs	$ 1,235,645	$ 1,235,645
Debt acquisition costs	248,506	248,506
	1,484,151	1,484,151
Less accumulated amortization	(1,137,912)	(997,730)
Deferred charges, net	$ 346,239	$ 486,421

Amortization expense was $143,039 and $430,625 for 2011 and 2010, respectively.

14) Employee Retirement Benefits

NRECA Retirement and Security Program. Substantially all of the Cooperative's employees participate in the National Rural Electric Cooperative Association (NRECA) Retirement and Security Program. The program is a multi-employer defined benefit master pension plan qualified under Section 401 and tax-exempt under Section 501(a) of the Internal Revenue Code. The basic benefit payable upon attainment of the normal retirement age is based on the highest five-year average of the base compensation during the last ten years of participation. Normal retirement age can be 62, or the earlier of age 62 or any age with thirty years of participation, as elected by the system. Benefits derived from employee contributions are fully vested. A portion of the benefits provided by system contributions is vested, increased at 10% a year after the first year of service to 100% after five years of service or at age 55.

The actuarial cost method used to determine the Cooperative's contributions necessary to meet ERISA funding requirements is the entry age normal cost method. The Cooperative made annual contributions to the Program equal to the amounts accrued for pension expense. The Cooperative's pension contribution under this plan for 2011 and 2010 was $1,206,012 and $1,192,219, respectively, of which a portion was capitalized to construction work in progress based on payroll costs. In this multi-employer plan, the accumulated benefits and plan assets are not maintained separately by individual employers.

SelectRE Pension Plan (401K Savings Plan). The Plan is a multi-employer defined contribution master pension plan. The Cooperative matches employee contributions up to 3% of an employee's annual base compensation. The Cooperative's pension contribution under the Savings Plan for 2011 and 2010 was $135,839 and $123,473, respectively, of which a portion was capitalized to construction work in progress based on payroll costs.

Post-Retirement Health Care. The Cooperative also provides certain medical and dental benefits for retired employees and directors. The Cooperative pays the cost for retired employees as follows: years of service 8 through 15 - 25%; years 16 through 20 - 50%; years 21 through 25 - 75%; and greater than 26 years of service - 100%.

The Cooperative funds these benefits on a pay-as-you-go basis. Benefits paid under the plan amounted to $393,600 and $375,000 for the years ended December 31, 2011 and 2010, respectively.

A summary of the components of the net periodic postretirement benefit cost for the years ended December 31, follows:

	2011	2010
Service cost - benefits earned during the period	$ 226,000	$ 198,300
Interest cost on APBO	711,400	687,300
Amortization of actuarial (gain)/loss	357,700	281,700
Net periodic postretirement benefit cost	$ 1,295,100	$ 1,167,300

The funded status of the Cooperative's postretirement plan is as follows at December 31,:

	2011	2010
Accumulated postretirement benefit obligation	$ 13,871,400	$ 13,327,600
Fair value of plan assets	-	-
Accumulated postretirement benefit obligation	$ 13,871,400	$ 13,327,600

Amounts included in accumulated other comprehensive income had not yet been recognized as components of postretirement benefit cost at December 31, follow:

	2011	2010
Actuarial loss	$ 4,909,700	$ 5,267,400

The assumed health care cost trend rate used in measuring the APBO was 7.5% for 2011 gradually decreasing each successive year until it reaches 5.0% in 2017. The assumed discount rate used in measuring the APBO was 5.5% and 6.0% for 2011 and 2010, respectively.

15) Other non-operating income (expense)

The significant components of other non-operating income consisted of the following for the years ended December 31,:

			Total	
	SLECA	TESI	2011	2010
Loss on retirement of assets	$ 19,138	$ -	$ 19,138	$ 339,655
Other	37,726	-	37,726	33,956
	$ 56,864	$ -	$ 56,864	$ 373,611

16) Rates and Regulation

In 1989, the Louisiana Supreme Court ruled that the LPSC has plenary authority over all rural electric cooperatives in the State. In June 2000, the Cooperative's rate schedules were filed with LPSC.

17) Contingencies

Several suits and claims arising in the ordinary course of operations are pending against TESI. The majority of these claims are covered by insurance or other defenses.

A petition for receivership was filed by the Mississippi Public Service Commission (MSPSC) in October 2010 in the Jackson County Chancery Court in Mississippi due to customer complaints concerning the quality of water. If the MSPSC is awarded receivership, the related utility assets will be placed under control of an appointed receiver, and TESI will be required to compensate such receiver. TESI is litigating this matter. TESI believes that it is unlikely that the assets will be placed in receivership.

TESI is subject to three consent decrees with various state and federal regulatory agencies. The decrees state, among other things, that TESI will make necessary refurbishments to bring existing water and waste water systems into compliance with state and federal operating and environmental standards. It is the opinion of management that the refurbishments to meet the terms of the consent decrees can be completed within specified time limits. Costs associated with the refurbishments are expected to be capital in nature and will be capitalized as incurred.

Management of the Cooperative and TESI are not aware of any unrecorded material environmental commitments or contingent environmental liabilities. Environmental contingencies have been mitigated by testing of the water and sewer systems on a regular basis and providing the test results to the proper environmental authorities.

The Cooperative is subject to other legal proceedings. In the opinion of management, the outcome of these proceedings will not materially affect the accompanying financial statements, and accordingly, no provision for any liability has been recorded.

19) Commitments

Under its wholesale power agreement, the Cooperative is committed to purchase all of its electric power and energy requirements from Louisiana Generating, L.L.C. for a twenty-five year period. The rates paid for such purchases are subject to review annually, and are regulated by the LPSC. Future operating results could be materially affected in the event of an interruption of the supply of electric power from the company.

20) Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate that value.

Cash and invested cash. For invested cash, the carrying amount is a reasonable estimate of fair value.

Short-term borrowings. The carrying amounts of lines of credit and other short-term borrowings approximate their fair value.

Long-term borrowings. The fair value of long-term debt is based on current rates at which the Cooperative could borrow funds with similar remaining maturities.

The fair value estimates presented are based on information available to management as of December 31, 2011 and 2010, respectively. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, these amounts have not been revalued for purposes of these financial statements since that date, and, therefore, current estimates of fair value may differ significantly from the amounts presented.

The estimated fair value of financial instruments, as of December 31, follows:

	(In Thousands) December 31, 2011		(In Thousands) December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and invested cash	$ 1,180	$ 1,180	$ 886	$ 886
Financial liabilities:				
Short-term borrowings	1,050	1,050	3,100	3,100
Long-term borrowings	47,736	46,755	43,828	38,002

Generally accepted accounting principles require disclosure of fair value information about financial instruments for which it is practical to estimate fair value. The aforementioned disclosures do not include estimated fair value for all non-financial instruments that are excluded from these disclosure requirements. Further, the disclosures do not include estimated fair value of items which are not financial instruments but which represent significant value to the Company. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

21) Subsequent Events

In preparing the financial statements, the Cooperative and TESI have evaluated events and transactions for potential recognition or disclosure through September 17, 2012 and August 17, 2012, respectively, the dates the financial statements were available to be issued.

During 2011, TESI initiated a plan to dispose of assets and related operations excluding assets held in Louisiana. As such, the non-Louisiana operations are being actively marketed for sale. Subsequent to December 31, 2011, the following subsequent events occurred:

- Pennsylvania. TESI entered into agreements to sell all plant assets owned and operated in Pennsylvania, as follows:
    - TESI executed an asset purchase agreement for a substantial portion of its water and wastewater system. The agreement is subject to certain conditions as well as regulatory approval by the Pennsylvania Public Utility Commission. The sale, if consummated, is expected to conclude no later than March 2013.
    - In May 2012, TESI concluded the sale of a water and wastewater system, of which the proceeds were used to retire debt owed to CoBank. See note 4.

- Mississippi. TESI entered into an asset purchase agreement to sell a water and wastewater system in Kiln, Mississippi. Management has indicated that TESI received regulatory approval from the Mississippi Public Service Commission in August 2012. The remaining assets held in Mississippi are actively being marketed for sale.

- During 2012, TESI engaged a public utility specialist to value certain property in Louisiana, Mississippi, Pennsylvania, and South Carolina. The purpose of the valuation was to confirm the cost basis of property in the financial statements for the aforementioned states. The analysis performed by the specialist confirmed the value of property, net of depreciation, as recorded in the 2011 financial statements and described in Note 5 to these financial statements. However, the ultimate amount realized from property sales is subject to negotiation, and regulatory approval.

22) Change in Accounting Method

During 2011, the Cooperative changed its method of accounting for power cost adjustments billed to customers. In prior years, power cost adjustments billed to customers were recognized as revenues when billed. Beginning in 2011, revenues will be adjusted for power cost overbilled or underbilled. The Cooperative believes this method more accurately matches operating revenues with the costs associated with producing those revenues. The effect of this change was to decrease accrued expenses and other liabilities by $448,559 and increase net margins for 2011 by $448,559. The financial statements for 2010 have been retroactively restated for such change, which resulted in an increase in accrued expenses and other liabilities by $697,628 and decrease net margins by $883,774. Patronage capital has been increased accordingly in the amount of $136,146 at the beginning of 2010 for the effect of the retroactive application of the new method.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Supplementary Information
and Supplementary Financial Reports

Year Ended December 31, 2011

5779 Hwy. 311
P. O. Box 3695
Houma, Louisiana 70361-3695
Telephone (985) 851-0883
Fax (985) 851-3014

Lanaux & Felger

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

THOMAS J. LANAUX, CPA
MARK S. FELGER, CPA

INDEPENDENT AUDITOR'S REPORT ON ADDITIONAL INFORMATION

The Board of Directors
South Louisiana Electric Cooperative Association and Subsidiary
Houma, Louisiana

We have audited the consolidated financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association and Subsidiary for the years ended December 31, 2011 and 2010, and our report thereon dated September 17, 2012, which expresses an unqualified opinion on those financial statements, appears on page 3. Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The additional consolidating information for 2011 in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, which insofar as it relates to Total Environmental Solutions, Inc., is based on the report of other auditors, such information is fairly stated in all material respects in relation to the basic 2011 consolidated financial statements as a whole.

Houma, Louisiana
September 17, 2012

Lanaux & Felger

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LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 1

Consolidating Balance Sheets

December 31, 2011

ASSETS

	SLECA	TESI	Eliminations	Consolidated
Utility plant:				
Electric plant in service	$ 108,455,280	$ -	$ -	$ 108,455,280
Construction work in progress	3,555,515	-	-	3,555,515
Water and waste water	-	33,303,528	-	33,303,528
Property held for sale	-	1,336,944	-	1,336,944
	112,010,795	34,640,472	-	146,651,267
Less accumulated depreciation	(34,394,355)	(15,130,590)	-	(49,524,945)
Net utility plant	77,616,440	19,509,882	-	97,126,322
Investment in subsidiary	1,200,078	-	(1,200,078)	-
Investments in associated organizations	2,195,981	-	-	2,195,981
Total other property and investments	3,396,059	-	(1,200,078)	2,195,981
Current assets:				
Cash and invested cash	1,138,590	39,201	-	1,177,791
Restricted cash	2,500	-	-	2,500
Accounts receivable:				
Consumers, less allowance for doubtful accounts	2,649,306	946,631	-	3,595,937
Accrued unbilled revenue	1,537,655	-	-	1,537,655
Other accounts receivable	959,704	92,840	-	1,052,544
Materials and supplies inventories	1,339,367	46,147	-	1,385,514
Prepayments	388,125	487,953	-	876,078
Total current assets	8,015,247	1,612,772	-	9,628,019
Other assets:				
Notes receivable	1,148,813	-	(1,148,813)	-
Deferred charges and other assets	-	346,239	-	346,239
Other assets	6,106	344,201	-	350,307
Total other assets	1,154,919	690,440	(1,148,813)	696,546
Total assets	$ 90,182,665	$ 21,813,094	$ (2,348,891)	$ 109,646,868

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 1
(continued)

Consolidating Balance Sheets, Continued

December 31, 2011

LIABILITIES AND OTHER CREDITS

	SLECA	TESI	Eliminations	Consolidated
Equities and margins:				
Memberships	$ 80,070	$ -	$ -	$ 80,070
Patronage capital	45,019,977	-	-	45,019,977
Other equities (deficits)	(1,865,529)	1,200,078	(1,200,078)	(1,865,529)
Accumulated other comprehensive income (loss)	(4,909,700)	-	-	(4,909,700)
Total equities and margins	38,324,818	1,200,078	(1,200,078)	38,324,818
Long-term obligations, net of current maturities:				
Notes and capital leases payable, net	28,459,555	-	-	28,459,555
Deferred interest payable	1,204,847	-	-	1,204,847
Long-term obligations, net	29,664,402	-	-	29,664,402
Current liabilities:				
Current maturities of long-term obligations	2,076,066	15,995,314	-	18,071,380
Other note payable	-	446,337	-	446,337
Lines of credit	1,049,913	-	-	1,049,913
Accounts payable:				
Purchased power	2,459,120	-	-	2,459,120
Other	484,943	2,147,625	(1,148,813)	1,483,755
Consumer deposits	1,009,799	935,740	-	1,945,539
Accrued expenses	1,242,204	-	-	1,242,204
Accumulated employee benefit liability	430,400	-	-	430,400
Total current liabilities	8,752,445	19,525,016	(1,148,813)	27,128,648
Other liabilities:				
Deferred income taxes	-	1,088,000	-	1,088,000
Accumulated employee benefit liability	13,441,000	-	-	13,441,000
Total other liabilities	13,441,000	1,088,000	-	14,529,000
Total liabilities	51,857,847	20,613,016	(1,148,813)	71,322,050
Total liabilities and other credits	$ 90,182,665	$ 21,813,094	$ (2,348,891)	$ 109,646,868

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 2

Consolidating Statements of Revenue and Expenses

Year Ended December 31, 2011

	SLECA	TESI	Eliminations	Consolidated
Operating revenue	$ 45,212,959	$ 11,992,817	$ -	$ 57,205,776
Operating expenses:				
Cost of power	31,042,038	-	-	31,042,038
Distribution expense	3,144,062	-	-	3,144,062
Consumer account expense	1,655,803	-	-	1,655,803
Customer sales and service	367,284	-	-	367,284
Depreciation and amortization	3,081,423	-	-	3,081,423
Water and waste water expenses	-	10,244,542	-	10,244,542
Other operating expenses	180,135	-	-	180,135
Taxes	118,264	-	-	118,264
Maintenance:				
Distribution and transmission system	2,204,244	-	-	2,204,244
General plant	370,758	-	-	370,758
Administrative and general:				
General office salaries and benefits	2,213,016	-	-	2,213,016
Property and liability insurance	101,498	-	-	101,498
Special services	311,550	-	-	311,550
Office supplies and expense	347,519	-	-	347,519
National, state and local meetings - directors and employees	190,446	-	-	190,446
Dues and subscriptions	229,701	-	-	229,701
Water and waste water expenses	-	1,853,325	-	1,853,325
Miscellaneous	159,550	-	-	159,550
	45,717,291	12,097,867	-	57,815,158
Operating margins	(504,332)	(105,050)	-	(609,382)
Interest expense	1,477,523	1,091,079	-	2,568,602
Net operating margins	(1,981,855)	(1,196,129)	-	(3,177,984)

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION & SUBSIDIARY

Schedule 2
(continued)

Consolidating Statements of Revenue and Expenses, Continued

Year Ended December 31, 2011

	SLECA	TESI	Eliminations	Consolidated
Non-operating margins:				
Interest income	65,189	55,983	-	121,172
Loss on retirement of property	-	(76,584)	-	(76,584)
Income (loss) from equity investments	(799,384)	-	799,384	-
Other non-operating income (expenses), net	56,864	-	-	56,864
	(677,331)	(20,601)	799,384	101,452
	(2,659,186)	(1,216,730)	799,384	(3,076,532)
Patronage income:				
Cooperative capital credits - CFC	133,522	-	-	133,522
Patronage income - Co-Bank	-	142,832	-	142,832
	133,522	142,832	-	276,354
Net margins before income tax	(2,525,664)	(1,073,898)	799,384	(2,800,178)
Income taxes:				
Deferred tax expense (benefit)	-	(140,000)	-	(140,000)
Valuation allowance	-	-	-	-
Total income tax expense (benefit)	-	(140,000)	-	(140,000)
Net margins - continuing operations	(2,525,664)	(933,898)	799,384	(2,660,178)
Income from discontinued operations	-	134,514	-	134,514
Net margins	$ (2,525,664)	$ (799,384)	$ 799,384	$ (2,525,664)

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY

Supplementary Financial Reports

Year Ended December 31, 2011

5779 Hwy. 311
P. O. Box 3695
Houma, Louisiana 70361-3695
Telephone (985) 851-0883
Fax (985) 851-3014

Lanaux & Felger

--- Certified Public Accountants
A Professional Corporation

Thomas J. Lanaux, CPA
Mark S. Felger, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Directors
South Louisiana Electric Cooperative Association
Houma, Louisiana

We have audited the financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated, September 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

We did not audit the financial statements of the Cooperative's wholly-owned subsidiary, Total Environmental Solutions, Inc. These financial statements were audited by other auditors and our report on compliance and internal control over financial reporting does not include Total Environmental Solutions, Inc.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented or detected and corrected on a timely basis.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that are required to be reported under *Government Auditing Standards* which is described in the accompanying schedule of findings and responses as item 2011-1.

Management's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit management's response and, accordingly, we express no opinion on it.

We noted certain matters that we reported to management of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association, in a separate letter dated September 17, 2012.

This report is intended solely for the information of the Board of Directors, management, the Rural Utilities Service, the Legislative Auditor for the State of Louisiana, supplemental lenders, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Houma, Louisiana
September 17, 2012

Lanaux & Felger

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended December 31, 2011

Section I – Summary of Auditor's Reports

a. Financial Statements:

Type of auditor's report issued on financial statement: unqualified.

b. Internal Control and Compliance:

Internal control over financial reporting:

• Material weakness(es) identified	____Yes	XX No
• Significant deficiency(ies) identified that are not considered to be material weakness	____Yes	XX None reported
Noncompliance material to financial statements noted	XX Yes	____No

c. Federal Awards

SLECA did not expend federal awards in excess of $500,000 during the year ended December 31, 2011.

Section II – Financial Statement Findings

2011-1 AUDIT SUBMISSION

Statement of Condition: SLECA requested an extension to file the audit with the Legislative Auditor for the State of Louisiana because the financial statements of its wholly owned subsidiary were not available. The subsidiary's financial statements were delayed because of a possible asset impairment which required a valuation of its utility plant assets in several states.

Criteria: Louisiana Revised Statue requires the annual audit (prepared by a duly qualified certified public account) to be filed with the legislative auditor within six months after the close of the audit period.

Resolution: The financial statements were submitted to the Legislative Auditor by September 30, 2012.

Auditee's Response: Management believes the delay in obtaining the subsidiary's financial statements was due to unique circumstances and does not anticipate a similar delay in future years.

Section III – Federal Award Findings and Questioned Costs

Not Applicable.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY
SCHEDULE OF PRIOR YEAR FINDINGS
For the Year Ended December 31, 2011

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENTS

There were none reported for the year ended December 31, 2010.

SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

None.

SECTION III MANAGEMENT LETTER

SLECA received an extension of time to submit its audit report to the Legislative Auditor for the State of Louisiana while awaiting a determination as to whether it is a quasi-public entity as defined by Louisiana Revised Statute 24:513. The audit report was submitted by the extended deadline.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC COOPERATIVE ASSOCIATION AND SUBSIDIARY
MANAGEMENT'S CORRECTIVE ACTION PLAN
For the Year Ended December 31, 2011

SECTION I INTERNAL CONTROL AND COMPLIANCE MATERIAL TO THE FINANCIAL STATEMENT.

Compliance

Management believes the delay in obtaining the subsidiary's financial statements was due to unique circumstances and does not anticipate a similar delay in future years.

SECTION II INTERNAL CONTROL AND COMPLIANCE MATERIAL TO FEDERAL AWARDS

Not applicable.

SECTION III MANAGEMENT LETTER

As required under the RUS audit guide, a management letter was issued in connection with the audit, commenting on specific aspects of the internal control over financial reporting and compliance with specific RUS loan and security instrument provisions. No findings which require a response from management were reported in the management letter.

LOUISIANA 8 TERREBONNE
SOUTH LOUISIANA ELECTRIC
COOPERATIVE ASSOCIATION
HOUMA, LOUISIANA

Management Letter

December 31, 2011

5779 Hwy. 311
P. O. Box 3695
Houma, Louisiana 70361-3695
Telephone (985) 851-0883
Fax (985) 851-3014

Lanaux & Felger

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL CORPORATION

Thomas J. Lanaux, CPA
Mark S. Felger, CPA

September 17, 2012

The Board of Directors
South Louisiana Electric Cooperative Association
Houma, Louisiana

We have audited the financial statements of Louisiana 8 Terrebonne South Louisiana Electric Cooperative Association ("Cooperative") and Subsidiary for the year ended December 31, 2011, and have issued our report thereon dated September 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and 7 CFR Part 1773, Policy on Audits of Rural Utilities Service (RUS) Borrowers. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

We did not audit the financial statements of Total Environmental Solutions, Inc., a wholly owned subsidiary. Those statements were audited by other auditors whose report was furnished to us. The other auditors issued a report dated August 17, 2012 indicating material weaknesses in internal control regarding financial reporting, operating and capital budgets, and controls over various account balances and transactions classes. This letter does not address any of the matters included in the report issued by the other auditors.

In planning and performing our audit of the financial statements of the Cooperative for the year ended December 31, 2011, we considered internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cooperative's internal control over financial reporting.

Our consideration of internal control over financial reporting would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Cooperative's internal control.

7 CFR Part 1773.33 requires comments on specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters. We have grouped our comments accordingly. In addition to obtaining reasonable assurance about whether the financial statements are free from material misstatements, at your request, we performed tests of specific aspects of internal control over financial reporting, of compliance with specific RUS loan and security instrument provisions, and additional matters. The specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and additional matters tested include, among other things, the accounting procedures and records, materials control, compliance with specific RUS loan and security instrument provisions set forth in 7 CFR Part 1773.33 (e)(1), related party transactions, depreciation rates, and a schedule of deferred debits and credits, upon which we express an opinion. In addition, our audit of the financial statements also included the procedures specified in 7 CFR Part 1773.38-.45. Our objective was not to provide an opinion on these specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, or additional matters, and accordingly, we express no opinion thereon.

No reports other than our independent auditors' report, independent auditors' report on additional information, report on internal control over financial reporting and on compliance and other matters, communications with those charged with governance required by auditing standards generally accepted in the United States of America, all dated September 17, 2012, or summary of recommendations related to our audit have been furnished to management.

Our comments on specific aspects of internal control over financial reporting, compliance with specific RUS loan and security instrument provisions, and other additional matters as required by 7 CFR Part 1773.33 are presented below.

COMMENTS ON CERTAIN SPECIFIC ASPECTS OF THE INTERNAL CONTROL OVER FINANCIAL REPORTING

We noted no matters, except as noted below, regarding the Cooperative's internal control over financial reporting and its operations that we consider to be a material weakness as previously defined with respect to:

- The accounting procedures and records;
- The process for accumulating and recording labor, material, and overhead costs and the distribution of these costs to construction, retirement, and maintenance or other expense accounts; and
- The materials control.

We did, however, observe the following:

Patronage Capital Credits Assigned
7 CFR Part 1767.41 (RUS Interpretation #501) requires the Cooperative to maintain proper records to support all capital credit transactions. As we noted in prior years, the Cooperative lost its electronic computer file of Patronage Capital Credits Assigned for the years from 1969 to 1986. We understand that the file was corrupted during computer backup procedures. The Cooperative has a hard copy record of the above patronage capital credits and has begun restoring its computer files to facilitate any future adjustments and/or payments of capital credits. Some progress was made in restoring these electronic computer files in 2011 and the Cooperative should continue working to complete this process as quickly as possible.

COMMENTS ON COMPLIANCE WITH SPECIFIC RUS LOAN AND SECURITY INSTRUMENT PROVISIONS

Management's responsibility for compliance with laws, regulations, contracts, and grants is set forth in our independent auditor's report on internal control over financial reporting and on compliance and other matters dated May 9, 2011, and should be read in conjunction with this report. At your request, we have performed procedures enumerated below with respect to compliance with certain provisions of laws, regulations, contracts and grants. The procedures we performed are summarized as follows:

- Procedures performed with respect to the requirement for a borrower to obtain written approval of the mortgagee to enter into any contract for the operation or maintenance of property, or for use of mortgaged property by others for the year ended December 31, 2011 of the Cooperative:

    1. Obtained and read a borrower-prepared schedule of new written contracts entered into during the year for the operation or maintenance of all or any part of its property, or for the use of its property by others as defined in § 1773.33 (e) (1) (ii) (There were none noted).

    2. Reviewed Board of Director minutes to ascertain whether board-approved written contracts are included in the borrower-prepared schedule. (There were none noted).

    3. Noted the existence of written RUS approval of each contract listed by the borrower. (There were no contracts noted requiring RUS approval.)

- Procedure performed with respect to the requirement to submit RUS Form 7 to the RUS.

  1. Agreed amounts reported in Form 7 to the Cooperative's records.

The results of our tests indicate that, with respect to the items tested, the Cooperative complied, in all material respects except as noted, with the specific RUS loan and security instrument provisions referred to below. The specific provisions tested include the requirements that:

- The borrower, when applicable, has obtained written approval of the RUS to enter into any contract for the operation or maintenance of property, or for the use of mortgaged property by others as defined in § 1773.33 (e) (1) (ii); and

- The borrower has submitted its Form 7 to the RUS and the Form 7, Financial and Statistical Report as of December 31, 2011. The Form 7 submitted to the RUS agreed with the Cooperative's audited records, except as follows:

  - Equity in the loss of its subsidiary was not included on the Form 7. The Cooperative wholly owned subsidiary's financial data was not available prior to the deadline for filing the Form 7.

  The Cooperative will file an amended Form 7, which will include the financial information of the subsidiary and the correction of gross additions and retirements in Part E, after the completion of the audit.

COMMENTS ON OTHER ADDITIONAL MATTERS

In connection with our audit of the financial statements of the Cooperative, nothing came to our attention that caused us to believe that the Cooperative failed to comply with respect to:

- The reconciliation of subsidiary plant records to the controlling general ledger plant accounts addressed at 7 CFR 1773.33 (c)(1);

- The clearing of construction accounts and the accrual of depreciation on completed construction addressed at 7 CFR 1773.33 (c)(2). However, we did note several workorders totaling approximately $582,354 in which there has been no activity in at least one year. Based on our inquiries of management, it appears that most of these workorders involve abandoned projects or projects that have been temporarily suspended because of hurricane damage repair work. We have provided management with a listing of these workorders and we recommend that it be reviewed to determine the proper disposition of these workorders;

- The retirement of plant addressed at 7 CFR 1773.33 (c)(3) and (4);

- Sales of plant material, or scrap addressed at 7 CFR 1773.33 (c)(5);

- The disclosure of material related party transactions, in accordance with FASB ASC 850-10-50, for the year ended December 31, 2011, in the financial statements referenced in the first paragraph of this report addressed at 7 CFR 1773.33 (f);

- The depreciation rates addressed at 7 CFR 1773.33 (g);

- The detailed schedule of deferred debits and deferred credits. (The Cooperative did not have any deferred debits or deferred credits on its books that required RUS approval as of December 31, 2011.)

This report is intended solely for the information and use of the board of directors, management, and the Rural Utilities Service, the Legislative Auditor for the State of Louisiana, and supplemental lenders and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Very truly yours,

Lanaux & Felger

Lanaux & Felger